



## **Annual Total Compensation Survey Process Meet and Confer - May 2014**

### **Introduction**

By law, most matters related to maintaining prevailing compensation for the state personnel system, including the annual compensation survey, recommendations to the General Assembly, and rulemaking for certain compensation practices are under the authority of the State Personnel Director (Director). The Director has delegated certain authorities to the Division of Human Resources (Division) in the Department of Personnel and Administration (Department). Such authority includes meeting the statutory mandates for establishing technically and professionally sound survey methodologies, conducting surveys, analyzing data, and reporting survey findings. This document describes the methodologies and process for conducting the annual compensation survey for fiscal year 2015-2016.

### **General Compensation Policy Statement**

It is the policy of the State of Colorado to provide prevailing total compensation to employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce. Total compensation includes, but is not limited to, salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave.

The reference to “prevailing” reflects the State’s desire to provide total compensation that is competitive with its defined labor market; specifically, to compensate at a level that falls in the middle of market rather than to lead or lag the market. The methodology is applied for all classified jobs with the exception of the State Patrol Trooper class series, as required by §24-50-104(1)(a)(III)(A), C.R.S.

To determine prevailing practices in base pay, the Division compares actual salaries paid in the market to actual salaries paid to state employees to establish target compensation and base pay that is competitive with the State’s defined labor market. The Division also compares the midpoint of the market salary ranges to state salary range midpoints to assess pay practices related to pay structures and pay progression. The Division may collect data on variable pay to assess market trends and practices in establishing non-base merit awards (one-time, lump sum payments) as part of total cash compensation. In addition, planning surveys are used to assess prevailing market practices and trends in actual and projected total annual salary budget increases. The

measures used to compare prevailing base pay and pay structures in the market are defined below.

- The **median (50<sup>th</sup> percentile)** identifies the middle rate in a set of actual salaries paid to employees for the same or similar jobs in the external labor market (public and private). The median describes the central tendency of the data and minimizes the effect of extreme values. Extreme values (reported salary rates much higher or lower than others) affect the mean; they do not affect the median.
- Salary ranges reflect the pay levels (from minimum to maximum) established by employers for similar jobs in the market. The **average midpoint**, or middle-pay value in a pay range, usually represents the competitive aggregate market value for a job or group of jobs assigned to a pay range and is commonly established as an estimate of the common or target market rate.

To determine prevailing practices for group benefit plans, the Division measures the percentage of the premiums shared between the employer and employee and cost-related plan design features such as, out-of-pocket deductibles, co-pays, and co-insurance. The Division assesses other measures or indicators of the overall cost of group benefit plans, such as the market average cost of benefits per employee and market trends in health care related cost increases to determine prevailing practices and projections for increases to plan premiums and premium contributions.

## **Purpose of the Annual Compensation Survey**

In order to maximize the investment made in state employees, the annual compensation survey is conducted in an effort to maintain an integrated and prevailing compensation package. The statutory purpose of the annual compensation survey is to determine any necessary adjustments to the two major components of total compensation that may require increased dollars each year: salaries (base and non-base) and employer contributions to group benefit plans. The result of the annual compensation survey is a published report that reflects an assessment of prevailing total compensation in the labor market and estimated budget adjustments necessary to maintain prevailing pay, pay structures, and employer contributions to group benefit plans for the upcoming fiscal year. The report is not a recommendation or mandate, but rather a measure of prevailing market (public and private) used by the Director, among other factors, to make a formal recommendation that is published the same time as the report.

## **Meet and Confer**

Although statute requires the Division to meet and confer with management and employee representatives in order to establish confidence in the selection of surveys, the Division also invites all employees to the “Meet and Confer” to discuss and foster a better understanding of the entire survey process. In addition, the Division will use this

proposed process to solicit feedback and input from stakeholders regarding the State's benchmarks selected for market salary comparison. The Division notifies the workforce of the "Meet and Confer" through an announcement to departmental Human Resources Directors and representatives of employee organizations.

After reviewing and considering information gathered through the meet and confer, the Director makes the final decision regarding the process to conduct the annual compensation survey, and the final survey process is published on the Division's Web site.

## **Annual Survey Process**

### Survey Benchmarks

The annual survey process begins with identifying the core group of jobs within the State's personnel system used as benchmarks for conducting salary data comparisons with other employers in the market. Benchmark jobs are internal jobs that serve as the market anchor points because they are comparable to jobs readily identifiable and commonly found in the marketplace. Benchmark jobs are used to compare the State's salaries in relationship to the market and to validate the State's internal class structure. The selection of core benchmarks provides an element of consistency in pay comparisons conducted year to year. Non-benchmark jobs are linked to the survey benchmarks through the internal job evaluation system that groups jobs based on the nature and level of work. Jobs are placed in pay grades that are based on the internal job evaluation system and pay range values are established through the comparison to market. Integration of the two processes ensures appropriate pay grade placement, maintains internal relationships within the class structure, and maintains external market competitiveness.

The selection of core benchmark jobs also provides the basis for identifying the State's labor market and the appropriate sources for data collection. Characteristics of good survey benchmarks:

- (1) Represent a cross-section of positions and the types and levels of work performed in the state personnel system;
- (2) Are well-established and generally have multiple incumbents, representing a significant portion of the workforce;
- (3) Are commonly and easily defined by the State and other employers;
- (4) Are available for comparison in the State's defined labor market; and,
- (5) Pay data for these jobs are readily available in published, professional compensation surveys.

Benchmarks are reviewed on an annual basis to ensure consistent data collection; appropriate labor market and survey selection; and, flexibility to changes in internal

structure and external market conditions. A total of 186 benchmarks have been identified for the FY15-16 survey process.

### Labor Market

The next step in the survey process is defining the relevant labor market for collecting and comparing prevailing salary and benefits data, market trends, and salary budget planning information. The State's primary labor market, as mandated by statute, includes both public and private sector employers within Colorado that the State competes with for the recruitment and retention of employees. In addition, the State also collects data from employers outside Colorado where insufficient data is available within Colorado, such as those benchmark jobs specific to state government.

### Data Collection and Analyses

General guidelines have been incorporated into the compensation profession relative to how compensation surveys are conducted giving consideration to legal issues surrounding data collection. These guidelines include maintaining confidentiality of the data of all participating companies and using a third party to conduct the survey. Use of third-party survey sources removes the opportunity to bias the data and receive inappropriate information. One primary focus is to avoid any real or perceived anticompetitive "wage fixing." The guidelines help to ensure that data are not used by competitors for discussion or coordination of compensation and to avoid bias by individual employers in applying data results. The generally accepted compensation guidelines provided below are intended to ensure that the purpose of exchanging data is to gather information about the labor market so that decisions can be made regarding the State's competitive position and adjust wages in response to changing market conditions.

- (1) Utilize third parties rather than exchanging pay information directly with market competitors.
- (2) Ensure there are at least five data responses reported for each benchmark or statistic, with no individual participant's data representing more than 25% of the data.
- (3) Survey output should be aggregated rather than showing individual participant data, directly or indirectly, to protect participant confidentiality.
- (4) Data should reflect historical pay information (at least three months old) rather than future pay intentions.

### Survey Selection

Pursuant to §24-50-104 (4)(a), C.R.S., the Division utilizes professional compensation and benefit surveys conducted by third-party organizations in the human resources, benefits and compensation industry. The following criteria to select published market surveys are based on standard and accepted practices in the compensation industry to ensure the availability and integrity of compensation and benefits data reported. The

Division conducts ongoing reviews of published surveys for collecting market data to ensure compliance with statute, industry standards, and the State's policy to provide prevailing total compensation. Surveys selected must meet the criteria outlined below.

- (1) The survey provides adequate benchmark job descriptions to ensure appropriate matching of duties and responsibilities to the State's jobs.
- (2) The survey provides data necessary for analyses, including but not limited to, salary data, benefits data, or planning forecasts.
- (3) The survey uses and demonstrates statistically valid data collection and analysis methods and adequately explains its methodologies in sample selection, data verification, and data analyses.
- (4) The survey data are not self-reported by individual employees.
- (5) The survey reports the effective date for pay rates or benefit contribution levels.
- (6) The survey includes appropriate labor markets for the State of Colorado and provides its data sources (survey participants). If it can be reasonably concluded based on the surveying organization and its methodology that the data has the requisite integrity, surveys not meeting the requirement regarding identification of survey participants may be considered.
- (7) The survey is available for the Division to examine, verify, or purchase.
- (8) The survey provides substantial value in job matches and comparisons to the State's benchmark jobs, labor markets appropriate for the State, or planning forecasts relevant to the State.
- (9) The survey is conducted by a third party for whom regular publication of professional compensation surveys for use by others is one of the major enterprises of the organization.

Because survey data is copyrighted and confidential by statute and/or by professional compensation practice, detailed survey data cannot be released except to the Office of the State Auditor. Results of the data analyses will be reported in aggregate, summary format.

#### Benchmark Comparisons

The method for collecting data and measuring market values corresponds directly to the State's compensation policy to provide "prevailing" compensation. The Division conducts direct benchmark comparisons of the State's salary data in relationship to the aggregate market salary data for similar jobs by calculating the percentage difference between the state salary figure and the market salary figure to determine whether the State's actual salaries and salary ranges are above, below, or competitive with the prevailing market. These comparisons provide a means for the Division to establish and maintain competitive base pay levels for the State's job classes through pay structures, allocation of classes to appropriate pay grades, and progression of employee salaries within assigned pay ranges.

### Benchmark Comparisons – Trooper Classes

For the State Patrol Trooper classes, §24-50-104 (1)(a)(III)(A), C.R.S., requires the Division to use methodologies consistent with the other classes to determine and maintain prevailing compensation with two exceptions. First, the labor market to be used for adjustments to actual salaries is uniquely defined as the top three law enforcement agencies within Colorado having more than 100 commissioned officers and the highest actual average salary. Second, the amount of salary for the Trooper sub-group shall be at least 99% of the average actual salaries provided in the defined Trooper market. To ensure statutory intent is met, each class within the Trooper sub-group will be adjusted separately as indicated by the market findings.

Generally, where fewer than five data points are reported for a survey benchmark, the benchmark is excluded from analysis because fewer than five data points is considered an insufficient sample size for drawing conclusions. However, data collection for the Trooper classes is the exception in that statute defines the labor market as the top three (large and highest salaried) law enforcement agencies within the State. While a sufficient number of actual salaries are typically reported for market jobs matching at least four of the six trooper class levels, there are not a minimum of five data points reported for salary range comparisons when using a labor market of three employers.

### Wage and Income Differentials

Because wage and income levels are different across the nation and even within local labor markets, differentials that factor in economic variations are calculated and applied to data that the State collects from employers outside Colorado. Differentials are calculated by referencing the Economic Research Institute (ERI), Geographic Assessor Report and figures reflect average wage and income levels by location. The State of Colorado is considered to be the base state and data from the other states are adjusted comparable to the base. For instance, if the statewide average wage and income levels for another state are 2.3% above Colorado, the data collected from that state are decreased by 2.3% to be comparable to the State of Colorado's market. If another state indicates wage and income levels 3.8% below Colorado, data collected from that state are increased by 3.8%.

### Rate Projection (Aging Salary Data)

Not all survey publications or their contributing organizations utilize the same effective date for their pay rates. In order for all survey data to have a common effective date (i.e., July 1), the Division projects market salary data by applying the most recent annual Employment Cost Index – Wages and Salaries for all Civilian Workers (ECI). The ECI is published quarterly by the U.S. Department of Labor, Bureau of Labor Statistics (BLS), and reflects the change in employment costs for civilian workers. This projection is an estimate of wage adjustments based on economic trends. For the annual compensation survey, the most current annual percentage change of the ECI is used to project all market salary data to the State's July 1 implementation date.

### Salary Budget Planning

In addition to compensation surveys used for direct benchmark analysis, the Division uses third-party salary budget planning surveys reporting local, regional, and national labor market trends in annual salary budget increases. Data collected from these surveys includes, but is not limited to; employee salary and salary structure increases applied in the market for current and prior years as well as projections for employee salary and salary structure increases. Total salary increases reported in the market encompass all increases employers apply to employee salaries throughout the year, which may include merit, market adjustments, performance-based pay, cost-of-living adjustments, and other base and non-base building salary increases. Pay structure adjustments may or may not impact actual salary increases.

### Individual Class Adjustments

In addition to surveying and conducting market comparisons of the core benchmark jobs each year, additional jobs may be directly surveyed as appropriate, to address potential compensation issues resulting from changes in the labor market or internal concerns identified, such as recruitment or retention of specific jobs. The Division applies the following guidelines, based on standard compensation practices, to identify and determine whether individual class adjustments are necessary to realign state classes both internally and externally with the market.

- (1) The magnitude of the difference. Discretion is used in considering all of the factors, but generally, under this factor, a review does not begin until the magnitude is  $\pm 7.5\%$ .
- (2) Stability of the rate difference from one year to the next. Does the difference fluctuate or is it steadily above or below the market?
- (3) Duration of the difference. Has the difference appeared suddenly or been sustained for a number of years?
- (4) Nature of, or changes in, the labor market sample for the survey class, e.g., type of market or organizations reporting data, number and size of firms reported, comparability with state jobs, and actual average salary levels for matched classes.
- (5) Historical internal and market pay relationships that exist between the class and other related classes.
- (6) Documented recruitment or retention (turnover) difficulties for the survey class.
- (7) Significant market trend differences in pay practices.

If the analysis indicates that an individual class adjustment is warranted, additional data may be collected to verify the findings or appropriate adjustments recommended in the annual compensation survey report. In cases where the market salary data is inconclusive for specific classes or series, system maintenance studies may be conducted in a subsequent year when internal alignment (relationship among state

classes) needs to be examined and verified with external alignment (market pay). The system maintenance studies that have fiscal impact are included as part of the subsequent annual compensation survey report.

#### Data Collection and Analyses – Group Benefit Plans

The Division uses third-party benefits surveys and trend reports to collect data and review group benefit plans including medical, dental, basic life, accidental death and dismemberment, and disability. The Division collects and compares market data, including but not limited to, how market employers share premium contributions with employees; the market average dollar employer contribution to premiums; cost-related plan design features such as, out-of-pocket deductibles, co-pays or co-insurance, and out-of-pocket maximums; and, comparisons of the plan benefits. Other information such as employer and employee demographics may be used to assess the State's own plan design, plan options, and affordability.

#### Trend Projection (Premium Data)

Market trends in healthcare cost increases are used to project increases to market premium rates to the State's implementation date of July 1. The Division applies healthcare cost increase projections reported in the *Segal Health Plan Cost Trend Survey*, trends reported by the State's actuary, market data and trend information reported by Mountain States Employers' Council, Mercer and the Bureau of Labor and Statistics. Increases in healthcare costs may be influenced by inflation, cost-shifting, claims and utilization, as well mandated coverage resulting from state and federal laws, such as the Affordable Care Act (ACA).

## **Compensation Plan**

The compensation plan details the pay grades and salary ranges for all classes and occupational groups and provides other applicable premium pay determinations. The compensation plan will reflect any pay structure adjustments, individual class adjustments, and salary lid values, and is published prior to the implementation of annual compensation adjustments.

#### Pay Structures

The state personnel system currently categorizes similar classes of jobs into six occupational groups. Each occupational group has its own pay structure made up of multiple pay grades.

#### Pay Ranges

A pay range is the formal range of pay or value established as the lowest (range minimum) and highest (range maximum) base salary an employer will pay for a given job. Range width is the percentage difference between the minimum and maximum of the pay range. Statute directs setting the maximum base salary (salary lid) the State will

compensate an employee in any class in the non-medical pay plan, Medical pay plan, and Senior Executive Service (SES) pay plan.

The Division reviews market practices around pay ranges and pay structures for different occupations or classes. Review of market practices in the use of ranges, control points within the ranges, and range widths provides useful information for assessing the overall design of the State's pay structures and how salaries progress through the assigned pay ranges.

## **Current Topics of Interest**

On occasion, the Director is interested in information on total compensation topics that may result in new or revised policy and programs. These special interest items may be used to support policy decisions on total compensation matters, but are not a recurring survey item each year. The information collected and analyzed is typically found in the same third-party survey sources used for other parts of the annual survey process. Depending upon the topic, additional survey sources may be sought to answer questions or examine issues relating to these topics. There are no special topics included in this year's survey.

## **Annual Survey Report and Director's Recommendations**

The Division conducts an analysis and review of the market data and compiles the survey results to report market findings. The results of the annual compensation survey are contained in a report published on August 1. The Director considers this report in requesting increased funding from the General Assembly and recommending the distribution of those appropriations between the major components of employee salaries and employer contributions to group benefit plans. The effective date is July 1 of the following fiscal year for any changes unless the General Assembly, acting by bill, establishes a different date. The review of any survey, the survey report, and recommendations regarding the annual compensation survey are not subject to appeal. The Director is required to report the survey findings and make the recommendations to the Governor and the Joint Budget Committee by August 1.

## **Survey Process Audit**

To ensure technically and professionally sound survey methodologies and practices, the annual compensation survey is subject to a performance audit every four years. The Office of the State Auditor is responsible for contracting with a private compensation consulting firm to conduct an audit of the annual compensation survey process and application of data, including any direct surveys. The most recent audit was conducted of the FY 2013-2014 survey. Recommendations stemming from the audit are

incorporated into the survey process; specifically, as they relate to weighting the data, and aging all data to July 1 of the next fiscal year.